# A Guide to Kentucky Inheritance and Estate Taxes

# GENERAL INFORMATION

**Kentucky Department of Revenue** 



The purpose of this booklet is to help achieve the mission of the Kentucky Department of Revenue by offering general information concerning the Kentucky inheritance and estate tax.

The mission of the Kentucky Department of Revenue is to provide courteous, accurate, and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a Fair and impartial manner.

If you have a question concerning any information contained in this booklet, or if you have any questions pertaining to a technical issue, please contact the *Financial Tax Section*, *Kentucky Department of Revenue*, *Station 61*, *501 High Street*, *Frankfort*, *Kentucky 40601-2103 or (502) 564-4810*.

#### INTRODUCTION

Kentucky has two death taxes.

#### Inheritance Tax

The Kentucky inheritance tax is a tax on a beneficiary's right to receive property from a deceased person. The amount of the inheritance tax depends on the relationship of the beneficiary to the deceased person and the value of the property. Most of the time, the closer the relationship the greater the exemption and the smaller the tax rate. All property belonging to a resident of Kentucky is subject to the tax except for real estate located in another state. Also, real estate and personal property located in Kentucky and owned by a nonresident is subject to being taxed.

If the inheritance tax is paid within nine months of date of decedent's death, a 5 percent discount is allowed. The tax due should be paid when the return is filed. However, if the beneficiary's net inheritance tax liability exceeds \$5,000 and the return is filed timely, an election can be made to pay the tax in 10 equal annual installments. The first installment is due at the time the return is filed. The portion of the tax deferred is charged with interest at the rate established by law beginning 18 months after the date of death.

There are three classes of beneficiaries: Class A, Class B, and Class C.

Class A beneficiaries include:

surviving spouse, parent, child, grandchild, brother, sister, half-brother, and half-sister

If the date of death is after June 30, 1998, all Class A beneficiaries are exempt from paying Kentucky inheritance tax.

Class B beneficiaries include:

niece, nephew, half-niece, half-nephew, daughter-in-law, son-in-law, aunt, uncle, great-grandchild

Note: nieces and nephews by marriage and great-nieces and great-nephews are Class C beneficiaries.

**Class B** beneficiaries receive a \$1,000 exemption and the tax rate is 4 percent to 16 percent. See tax chart on pages 6 and 7.

**Class C** beneficiaries include all persons not included in Class A or Class B. Cousins are considered Class C beneficiaries. Class C beneficiaries receive a \$500 exemption and the tax rate is 6 percent to 16 percent. *See tax chart pages 6 and 7.* 

#### Estate Tax

Since January 1, 2005 there has been no Kentucky estate tax, but it could come back on January 1, 2013. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 enacted a phase out of the state death tax credit on the United States Estate (and Generation-Skipping Transfer) Tax Return, federal Form 706, by December 31, 2004. This phase-out was not made permanent and was to end on December 31, 2010. On December 17, 2010, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Relief Act), which extended this phase-out through December 31, 2012.

In the past, the estate tax was calculated as the difference between Kentucky inheritance tax and the state death tax credit allowed on the United States Estate (and Generation-Skipping Transfer) Tax Return, federal Form 706. Presently, a deduction for state death tax paid is allowed under federal law.

There is no discount allowed on estate tax.

For answers to questions pertaining to the filing of a Federal Estate and Gift Tax Return, you can call the IRS at (800) 829-1040.

#### **AFFIDAVIT OF EXEMPTION**

On June 18, 1999, the Kentucky Department of Revenue sent a memorandum to the District Judges in the Commonwealth of Kentucky requesting that an Affidavit of Exemption be accepted in place of an Inheritance and Estate Tax Acceptance Letter for final settlement and closing of the administration of an estate. The affidavit should be used only when the entire estate passes to nontaxable beneficiaries and a United States Estate and Gift Tax Return is not required to be filed under federal law and applicable regulations.

Using this form will eliminate expending time and money for the preparation and review of Inheritance and Estate Tax Returns. The Affidavit of Exemption should ease the administration of estates that do not owe any Kentucky death tax and are not required to file a Federal Estate and Gift Tax Return. If you have guestions, contact Financial Tax Section, (502) 564-4810.

If an Affidavit of Exemption is submitted to the Court, **do not** send a copy of the affidavit to the Kentucky Department of Revenue.

# SAMPLE AFFIDAVIT OF EXEMPTION

being first duly sworn,
tates that he is the fiduciary or beneficiary of the estate of
, who died on theday
f,, a resident of
(county), Kentucky.
The undersigned states that all assets of the estate pass to exempt beneficiaries (spouse, children, grandchildren, parent, brother, sister) under the provisions of KRS 140.080 either by decedent's will, the intestate laws of this state, or by contract (survivorship, trust, deed, etc).  The undersigned also states that a Kentucky Inheritance Tax Return will not be filed since no death tax is due the state and a Federal Estate and Gift Tax Return (Form 706) will not be filed because the gross estate is less than the equired amount set out in Section 2010(c) of the Internal Revenue Code. This affidavit is being submitted to the court to satisfy the requirements of tentucky Revised Statute 395.605.
 Signature
Vitness my hand this day of,, Sworn and
ubscribed before me, this
, day of
Notary Public
Av commission expires:

## FILING AND PAYMENT INFORMATION

# **EFFECTIVE July 1, 1998**

A tax return must **only** be filed by the personal representative when any part of the estate passes to taxable beneficiaries or a Federal Estate and Gift Tax Return is required to be filed.

If all taxable assets pass to exempt beneficiaries, and a Federal Estate and Gift Tax Return is not required, an Affidavit of Exemption will be accepted by the court for final settlement and closing of the administration of an estate. It is not necessary to file a No Tax Due Inheritance Tax Return with the Kentucky Department of Revenue. If an Affidavit of Exemption is submitted to the Court, do not send a copy of the affidavit to the Kentucky Department of Revenue.

A copy of the Affidavit of Exemption and tax returns can be obtained from the Financial Tax Section, Kentucky Department of Revenue, Station 61, 501 High Street, Frankfort, Kentucky 40601-2103, or by calling (502) 564-4810, or from the taxpayer service center in your area. See inside back cover for a listing of these centers. They can also be downloaded from our website at revenue.ky.gov/forms/curhrfrms.htm

## If taxes are due, when must the forms be filed?

If taxes are due, the return must be filed within 18 months from the date of the decedent's death. If the tax due is not paid within 18 months of death, interest and perhaps penalties are due. Filing the tax return should not be postponed due to the delay in receiving the federal estate tax audit or closing letter or because the real estate is being sold.

# INHERITANCE TAX TABLE FOR ESTATES OF DECEDENTS WHO WERE RESIDENTS OF KENTUCKY

(APPLICABLE FOR DATES OF DEATH ON OR AFTER JULY 1, 1998)

## CLASS A—The following list of beneficiaries are exempt from paying inheritance tax.

- (1) Surviving spouse, parent
- (2) Child (adult or infant)
  - child by blood, stepchild, child adopted during infancy, or a child adopted during adulthood who was reared by decedent during infancy
- (3) Grandchild
  - issue of child by blood, stepchild, child adopted during infancy, or of a child adopted during adulthood who was reared by decedent during infancy
- (4) Brother, sister (whole or half)

# DISTRIBUTIVE SHARE BRACKETS

			I	I	I			I	I	
CLASSIFICATION OF BENEFICIARY	\$500 or less	\$500- \$1,000	\$1,000- \$10,000	\$10,000- \$20,000	\$20,000- \$30,000	\$30,000- \$45,000	\$45,000- \$60,000	\$60,000- \$100,000	\$100,000- \$200,000	\$200,000- and over
CLASS B  *Nephew, niece, half-nephew, half-niece, daughter-in-law, son-in-law, aunt, uncle, or great-grandchild who is grandchild of child by blood, stepchild or child adopted during infancy.	0	0	4% of Amt.	\$360 + 5% of Amt.	\$860 + 6% of Amt.	\$1,460 + 8% of Amt.	\$2,660 + 10% of	\$4,160 + 12% of	\$8,960 + 14% of	\$22,960 + 16% of
	Exemption \$1,000		\$1,000	over \$10,000	over \$20,000	over \$30,000	Amt. over \$45,000	Amt. over \$60,000	Amt. over \$100,000	Amt. over \$200,000
CLASS C  All persons not included in Classes A or B and educational, religious, or other institutions, societies or associations, or public institutions not exempted by KRS 140.060	0	6% of Amt. over \$500	\$30 + 6% of Amt. over \$1,000	\$570 + 8% of Amt. over \$10,000	\$1,370 + 10% of Amt. over \$20,000	\$2,370 + 12% of Amt. over \$30,000	\$4,170 + 14% of Amt. over \$45,000	\$6,270 + 16% of Amt. over \$60,000	\$12,670 + 16% of Amt. over \$100,000	\$28,670 + 16% of Amt. over \$200,000
	Exemption \$500									

<sup>\*</sup> Nephews and nieces by marriage and great-nephews and great-nieces are Class C beneficiaries.

#### INSTRUCTIONS FOR USING INHERITANCE TAX TABLE ABOVE

- A. Compute each beneficiary's tax separately.
- B. Do not deduct the beneficiary's exemption from the distributive share. The tax shown in the table for each distributive share bracket automatically applies the allowable exemption.
- C. Determine the proper classification of the beneficiary at the left of the table.
- D. Follow the tax table across to distributive share bracket at the top of the table that includes the distributive share of that beneficiary.
- E. The tax applicable to that beneficiary's distributive share is the amount shown *plus* the designated percentage of the amount by which the distributive share exceeds the base of the distributive share bracket.

## If tax is due, what must be included on the return?

In general, all real and personal property in which the decedent owned or has an interest must be included on the tax return.

### Example of taxable property:

Real estate

Cash

Bank accounts even if located outside of Kentucky

Certificates of deposit

Money

Stock, bonds

Life insurance payable to the insured or to the estate

**Annuities** 

Debt due the decedent

Unpaid balance of mortgages, notes

Household goods

Livestock

Growing crops

Farm machinery

Automobiles

Income tax refunds

Boats, travel trailers

Royalties

Jewelry

**Antiques** 

# How must property included on the tax return be valued?

Most of the time all real and personal property must be reported at its fair cash value on the date of decedent's death. Under certain conditions when real estate passes to a son-in-law or a daughter-in-law the real estate can be valued at its agricultural or horticultural value. Since special rules apply, for more information please contact the Financial Tax Section, Kentucky Department of Revene, Sta. 61, 501 High Street, Frankfort, KY 40601-2103, or call (502) 564-4810.

# What about gifts made before death? Are they taxable?

Any gift made within three years of death is subject to being taxed unless the gift was made for a living reason and not in contemplation of death.

# If a tax return has to be filed, what deductions are allowed in the Kentucky Inheritance Tax Return?

Funeral expenses up to \$5,000 Attorney's fees Personal representative commissions Debts and taxes owed by the decedent Real property taxes Mortgages

# If the decedent was a resident of Kentucky, is property located outside of the state taxable?

If the decedent was a resident of Kentucky, all intangible property located outside of Kentucky is taxable. Under certain conditions partnership property located in another state is taxable. Real estate is taxable in the state where it is located. So, if a Kentucky resident owned real estate in another state, that real estate is not taxable for Kentucky inheritance tax purposes. If a Kentucky nonresident owned real estate in Kentucky, then that property is subject to Kentucky inheritance taxes.

## How are assets distributed?

When a person dies, real and personal property may pass by title, under the terms of the will, or by the laws of Kentucky. Survivorship property and property payable on death passes to the surviving co-owner shown on the deed or instrument, unless a disclaimer was filed, and not by the terms of the will or by the laws of intestate succession. When a person dies with a will, distribution of the estate is made according to the will, unless the will is renounced by the surviving spouse or a disclaimer is filed. If the will is renounced, the surviving spouse receives one-third of the real property and one-half of surplus personalty. The law provides that when a person dies without a will, one half of the estate, after funeral expenses, debts, and cost of administration are paid, goes to the surviving spouse and one-half descends as follows (if there is no surviving spouse, the whole estate descends):

- 1. to his children and their descendants (descendants take the share of their deceased parents); *if there are none,*
- 2. to his father and mother; if one is deceased, to the survivor; if there is no father or mother.
- 3. to his brothers and sisters and their descendants; (half-brothers and halfsisters and their descendants inherit only one-half as much as those of the whole blood); *if none*,

- 4. to the husband or wife of the intestate; if none,
- 5. one share shall pass to the paternal and the other to the maternal kindred in the following order:
  - (a) the grandfather and grandmother equally, if one is deceased, it shall go to the survivor; if both are deceased,
  - (b) to the uncles and aunts and their descendants; if there are none,
  - (c) to the great-grandfathers and great-grandmothers; if none,
  - (d) to the brothers and sisters of the grandfathers and grandmothers; and
- 6. if there is no kindred to one of the parents as described in (5), the whole descends to the kindred of the other. If there is neither paternal nor maternal kindred, the whole descends to the kindred of the spouse.

# What are the exemptions, if the decedent was a nonresident of Kentucky?

The exemption for a beneficiary of a nonresident decedent's estate is prorated based on the exemption of a resident decedent and is in the proportion to the net value of the property subject to tax in Kentucky before federal estate taxes to the total property transferred by the decedent.

Definitions of common terms used in administering estates—The terms may or may not have been used in this booklet.

**Administrator/Administratrix**—A person appointed by the court to administer the assets and liabilities of a decedent.

**Beneficiary**—A person who is lawfully entitled to the proceeds or assets of an estate.

Bequest—A gift of property by will.

**Decedent**—A person who has died.

**Descendant**—A person who is an offspring, however remote, of a certain ancestor

**Distribution**—The apportionment and disposition, by authority of a court, of the balance of the decedent's assets after payment of debts and costs.

**Dower/Curtesy**—The surviving spouse's (wife or husband) interest in the deceased spouse's estate who died without a will.

**Estate**—The property of a person. Often a decedent's property in the process of administration.

**Estate Tax (Kentucky)**—The difference in the Kentucky inheritance tax and Kentucky's part of the federal state death tax credit.

**Executor/Executrix**—A person named in the will to take charge of the deceased's estate and dispose of it as directed in the will.

**Gift**—A lifetime transfer of property from one individual to another without full payment.

**Heir**—A person who inherits or is entitled by law or by terms of the will to inherit the estate of another.

**Inheritance**—The property received from a deceased person, by succession or by will.

**Inheritance Tax**—A tax based on the right to receive property from a decedent's estate. The amount of tax is based on the beneficiary's share and relationship to the decedent.

**Intestate**—When a person dies without having made a legal will or having made legal arrangements to dispose of property after death, that person dies intestate.

**Personal Representative**—Person appointed by the Court to administer the distribution of the assets and liabilities of the decedent's estate. If the decedent didn't have a will, this person might be called the administrator/administratrix. If the decedent had a will, this person might be called the executor/executrix.

**Probate**—The legal establishment of the validity of a will. Also, the process of legally establishing the validity of a will.

**Survivorship**—If ownership is *with* the right of survivorship and one owner dies, the surviving owner becomes the owner of the entire property.

**Tenant in Common (without survivorship)**—If ownership is *without* the right of survivorship and one owner dies, the decedents' share of the property is included in his estate rather than becoming the property of the other co-owner.

**Testate**—When a person dies having made a legal will to dispose of property after death, that person dies testate.

**Trust**—A legal title to property held by one party for the benefit of another.

**Will**—A document prepared in contemplation of death and containing instructions for the disposition of property.

Every effort and care has been taken in the preparation of this booklet. However, the possibility of mechanical and/or human error does exist. In the event that any information in this booklet is later determined to be in error, this booklet cannot be used by taxpayers in supporting a specific position or issue before the Kentucky Department of Revenue, as it does not have the statutory or regulatory authority. This booklet does not address technical issues.

Should you need assistance, please contact the Financial Tax Section, Kentucky Department of Revenue, Station 61, 501 High Street, Frankfort, Kentucky 40601-2103, (502) 564-4810. You can also contact one of the local taxpayer service centers. See inside back cover for a listing of these centers.

# Where Can I Get Help?

#### Ashland, 41101-7670

134 Sixteenth Street Telephone: (606) 920–2037

Fax: (606) 920-2039

# **Bowling Green, 42104–3278**

201 West Professional Park Court Telephone: (270) 746–7470

Fax: (270) 746-7847

#### **Central Kentucky**

501 High Street Frankfort, 40601-2103 Telephone: (502) 564–4581

Corbin, 40701-6188

15100 North US 25E, Suite 2 Telephone: (606) 528–3322

Fax: (606) 523-1972

# Hopkinsville, 42240-7926

181 Hammond Drive Telephone: (270) 889–6521

Fax: (270) 889-6563

#### Louisville, 40202-2310

600 West Cedar Street 2nd Floor West

Telephone: (502) 595-4512

Fax: (502) 595-4205

## **Northern Kentucky**

Turfway Ridge Office Park 7310Turfway Road, Suite 190 Florence, 41042–4871

Telephone: (859) 371-9049

Fax: (859) 371-9154

#### Owensboro, 42301-6295

Corporate Center 401 Frederica Street Building C, Suite 201 Telephone: (270) 687–7301

Fax: (270) 687-7244

#### Paducah, 42001-4024

Clark Business Complex, Suite G

2928 Park Avenue

Telephone: (270) 575-7148

Fax: (270) 575-7027

#### Pikeville, 41501-1275

Uniplex Center, Suite 203 126 Trivette Drive

126 Hivette Drive

Telephone: (606) 433–7675

Fax: (606) 433-7679